



House of Representatives

General Assembly

File No. 118

February Session, 2006

Substitute House Bill No. 5467

House of Representatives, March 23, 2006

The Committee on Program Review and Investigations reported through REP. SHARKEY of the 88th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

***AN ACT IMPLEMENTING THE RECOMMENDATIONS OF THE
LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS
COMMITTEE RELATING TO THE TRANSFER OF THE SOLDIERS,
SAILORS AND MARINES FUND TO THE CUSTODY OF THE
AMERICAN LEGION, DEPARTMENT OF CONNECTICUT, INC.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

- 1 Section 1. (NEW) (*Effective from passage*) (a) The American Legion,
- 2 Department of Connecticut, Inc., hereinafter referred to as the
- 3 American Legion, shall submit a plan for the management and
- 4 implementation of the Soldiers, Sailors and Marines Fund, to the
- 5 Legislative Program Review and Investigations Committee, hereinafter
- 6 referred to as the committee, by September 1, 2006. The committee
- 7 shall approve, modify or reject the plan by October 15, 2006. If the
- 8 committee rejects the plan, the American Legion shall submit an
- 9 amended plan not later than twenty days following the date of such
- 10 rejection. The committee shall act on the amended plan within twenty
- 11 days following its receipt of the amended plan.

12 (b) In accordance with sound investment criteria consistent with
13 prudent standards of fiduciary responsibility, the State Treasurer shall,
14 within a period of time not exceeding sixty days following the
15 approval of a plan as provided in subsection (a) of this section,
16 disinvest all currently invested funds of the Soldiers, Sailors and
17 Marines Fund, and provide for the transfer of the Soldiers, Sailors and
18 Marines Fund to the American Legion.

19 (c) In the event that the Comptroller has used state funds to make
20 up the difference between the expenditures from the Soldiers, Sailors
21 and Marines Fund and the interest income of said fund, the state shall
22 be reimbursed for any such amount from the principal of the Soldiers,
23 Sailors and Marines Fund prior to the transfer as provided in
24 subsection (b) of this section.

25 (d) On the date on which the transfer required by subsection (b) of
26 this section is made, the State Treasurer shall certify such date to the
27 General Assembly in accordance with the provisions of section 11-4a of
28 the general statutes.

29 Sec. 2. Section 27-138 of the general statutes is repealed and the
30 following is substituted in lieu thereof (*Effective upon the transfer of the*
31 *Soldiers, Sailors and Marines Fund by the State Treasurer to the American*
32 *Legion, Department of Connecticut, Inc.*):

33 [The] On and after the transfer of the Soldiers, Sailors and Marines
34 Fund by the State Treasurer to the American Legion, in accordance
35 with the provisions of section 1 of this act, the Soldiers, Sailors and
36 Marines Fund [shall remain as established and] shall be in the custody
37 of the [Treasurer as trustee of said fund] American Legion. The
38 [Treasurer] American Legion shall administer said fund [as required
39 by the provisions of this chapter,] and shall reinvest [as much of said
40 fund as is not required for current disbursement in accordance with
41 the provisions of part I of chapter 32. The interest accumulations of the
42 fund so held in trust or so much thereof as is found necessary to carry
43 out the purposes hereinafter stated shall be paid, upon the order of the
44 Comptroller, upon such statements as he may require, to the treasurer

45 of the American Legion, who shall disburse the same, and the balance
46 of said accumulations, except for a reserve of one hundred thousand
47 dollars held in custody of the trustee for contingent purposes, shall at
48 the end of each fiscal year be added to the principal of the fund. If the
49 interest accumulations of the fund, together with available
50 appropriations, if any, of other funds, are insufficient to carry out the
51 purposes of this part, the Finance Advisory Committee, upon
52 recommendation of the Governor, shall make appropriations therefor
53 from the state General Fund, limited, however, for any fiscal year to
54 amounts which, together with said interest accumulations for such
55 year, shall not exceed the annual interest on thirty-five million dollars
56 at the average rate of the investment yield earned during the preceding
57 fiscal year on the Soldiers, Sailors and Marines Fund, provided, in case
58 of disaster constituting an emergency, as declared by the Governor, the
59 Finance Advisory Committee may make additional appropriations to
60 said fund without regard to such limitation. Payments to the treasurer
61 of the American Legion shall be made at such definite and stated
62 periods as are necessary to meet the convenience of the American
63 Legion and said trustee; but each payment shall be made upon the
64 order of the treasurer of the American Legion, approved by at least
65 two of its executive officers or of a special committee thereof thereunto
66 specially authorized] the principal of said fund in accordance with the
67 Connecticut Uniform Prudent Investor Act, sections 45a-541 to 45a-
68 541l, inclusive, and with the objective of providing a secure source of
69 annual income for a program of temporary assistance for needy
70 veterans who performed service in time of war. No part of the [interest
71 accumulation] principal or income of said fund shall be expended for
72 the purpose of maintaining the American Legion, except as provided
73 in section 27-140, as amended by this act.

74 Sec. 3. Section 27-140 of the general statutes is repealed and the
75 following is substituted in lieu thereof (*Effective upon the transfer of the*
76 *Soldiers, Sailors and Marines Fund by the State Treasurer to the American*
77 *Legion, Department of Connecticut, Inc.*):

78 [All money so paid to and received] On and after the transfer of the

79 Soldiers, Sailors and Marines Fund to the American Legion pursuant
80 to section 1 of this act, all investment income of the Soldiers, Sailors
81 and Marines Fund shall be used by the American Legion [shall be
82 expended by it in furnishing food, wearing apparel, medical or
83 surgical aid or care or relief to, or in bearing the funeral expenses of,
84 soldiers, sailors or marines] for the operation of a program of
85 temporary assistance for eligible veterans who performed service in
86 time of war, as defined in subsection (a) of section 27-103, in any
87 branch of the military service of the United States, including the
88 Connecticut National Guard, or who were engaged in any of the wars
89 waged by the United States during said periods in the forces of any
90 government associated with the United States, and who have been
91 honorably discharged therefrom or honorably released from active
92 service therein. [, and who were citizens or resident aliens of the state
93 at the time of entering said armed forces of the United States, including
94 the Connecticut National Guard, or of any such government, or to
95 their] Temporary assistance may also be provided to spouses who are
96 living with [them, or to their] eligible veterans, widows or widowers
97 who were living with [them] eligible veterans at the time of their
98 death, or dependent children of eligible veterans, under eighteen years
99 of age. [, who may be in need of the same All such] All payments
100 under the program of temporary assistance shall be made by the
101 American Legion [under authority of its bylaws, which bylaws shall
102 set forth the procedure for proof of eligibility for such aid and shall be
103 approved by the trustee, provided payments made for the care and
104 treatment of any person entitled to the benefits provided for herein, at
105 any hospital receiving aid from the General Assembly unless special
106 care and treatment are required, shall be in accordance with the
107 provisions of section 17b-239, and provided the sum expended for the
108 care or treatment of such person at any other place than a state-aided
109 hospital shall in no case exceed the actual cost of supporting such
110 person at the Veterans' Home, unless special care and treatment are
111 required, when such sum as may be determined by the treasurer of
112 such organization may be paid therefor. The treasurer of such
113 organization shall account to said trustee during the months of

114 January, April, July and October for all moneys disbursed by it during
115 the three months next preceding the first day of either of said months,
116 and such account shall show the amount of and the name and address
117 of each person to whom such aid has been furnished. Upon the
118 completion of the trust provided for in section 27-138, the principal
119 fund so held by said trustee shall revert to the State Treasury] in
120 accordance with written criteria and procedures established by the
121 American Legion for the program of temporary assistance. The
122 American Legion may use a portion of the income from the fund for
123 the reasonable costs of administration of said program. On or before
124 March first of each year the American Legion shall prepare a report
125 which sets forth the program's operation during the previous calendar
126 year, including a summary of the investments and earnings of the
127 Soldiers, Sailors and Marines Fund, and data showing the number of
128 awards, and the amounts and types of awards made under the
129 program during such year.

130 Sec. 4. Section 3-13c of the 2006 supplement to the general statutes is
131 repealed and the following is substituted in lieu thereof (*Effective upon*
132 *the transfer of the Soldiers, Sailors and Marines Fund by the State Treasurer*
133 *to the American Legion, Department of Connecticut, Inc.*):

134 Trust funds as used in sections 3-13 to 3-13e, inclusive, and 3-31b
135 shall be construed to include Connecticut Municipal Employees'
136 Retirement Fund A, Connecticut Municipal Employees' Retirement
137 Fund B, [Soldiers, Sailors and Marines Fund,] State's Attorneys'
138 Retirement Fund, Teachers' Annuity Fund, Teachers' Pension Fund,
139 Teachers' Survivorship and Dependency Fund, School Fund, State
140 Employees Retirement Fund, the Hospital Insurance Fund, Policemen
141 and Firemen Survivor's Benefit Fund and all other trust funds
142 administered, held or invested by the Treasurer.

143 Sec. 5. Sections 27-138a, 27-138b and 27-138d of the general statutes
144 and section 27-138c of the 2006 supplement to the general statutes are
145 repealed. (*Effective upon the transfer of the Soldiers, Sailors and Marines*
146 *Fund to the American Legion, Department of Connecticut, Inc.*)

This act shall take effect as follows and shall amend the following sections:		
Section 1	<i>from passage</i>	New section
Sec. 2	<i>upon the transfer of the Soldiers, Sailors and Marines Fund by the State Treasurer to the American Legion, Department of Connecticut, Inc.</i>	27-138
Sec. 3	<i>upon the transfer of the Soldiers, Sailors and Marines Fund by the State Treasurer to the American Legion, Department of Connecticut, Inc.</i>	27-140
Sec. 4	<i>upon the transfer of the Soldiers, Sailors and Marines Fund by the State Treasurer to the American Legion, Department of Connecticut, Inc.</i>	3-13c
Sec. 5	<i>upon the transfer of the Soldiers, Sailors and Marines Fund to the American Legion, Department of Connecticut, Inc.</i>	Repealer section

Statement of Legislative Commissioners:

In subsection (c) of section 1, "appropriation" was changed to "expenditures" for clarity and accuracy.

PRI *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note**State Impact:**

Agency Affected	Effect
Soldiers, Sailors & Marines' Fund; Military Department; Department of Veterans' Affairs; Office of the State Treasurer	See Below

Municipal Impact: None

Explanation

Transferring the Soldiers, Sailors and Marines' Fund (SSMF) to the American Legion will impact the following areas: 1) the elimination of the state agency and the disposition of the current employees who will either be transferred, retire or leave state service; 2) the state will be reimbursed for approximately \$2.9 million for the shortfall between annual expenditures that have exceeded annual interest income; and 3) the Department of Veterans' Affairs and the Military Department current SSMF appropriation will no longer be available.

The bill transfers the SSMF, which is used to operate the state agency that administers the temporary assistance to eligible veterans, to the American Legion once certain requirements have been met. The American Legion is required to continue to provide temporary assistance to those eligible veterans and must also invest the fund principal according to the state prudent investor law with the objective of providing a secure income source for the assistance program.

BACKGROUND

The SSMF was established by the General Assembly in 1919 to provide temporary financial assistance to needy veterans. The SSMF (trust fund) is in the custody of the State Treasurer. The market value of the SSMF (trust fund) as of June 30, 2005 was \$60.9 million. Income

earned from the trust fund is made available through the SSMF (special revenue fund) to support the program. During FY 05 the income distributed to the SSMF (special revenue fund) from the trust fund was \$2.6 million. The special revenue fund appropriation authorizes funds for expenditures to the agency - which includes the award payment to veterans, Department of Veterans' Affairs (headstones and burials) and the Military Department (honor guard). The FY 05 SSMF appropriation was \$3.6 million and \$3.45 million was expended.

IMPACT

SSMF Employees - The bill transfers the fund and responsibility of administering the temporary assistance to the American Legion and therefore eliminates the agency. There are currently 13 state employees within the SSMF (agency). Two are appointed positions (Administrator and the Assistant Administrator), 1 is a confidential, 5 are within the P2 - Social and Human Services bargaining unit and 5 are within the NP3 - Clerical bargaining unit. The status of these employees upon the dissolving of the agency will depend on various issues. Eligible employees may retire or leave state service voluntarily; the American Legion may hire some of these individuals (they would no longer be state employees); existing contract provisions would apply to those within the collective bargaining units which could lead to bumping, re-employee list and filling of funded vacancies state wide.

Reimbursement to the State - Prior to the transfer of the fund to the American Legion, the state shall be reimbursed for the cumulative shortfall between annual expenditures and annual interest income that the state has covered. It is estimated through FY 06, \$2.9 million would be required to be transferred from the SSMF (trust fund) prior to the Treasurer transferring the fund to the American Legion (in addition to any excess in FY 07).

Department of Veterans' Affairs and the Military Department - The bill would eliminate funding for the Department of Veterans' Affairs

and Military Department's current SSMF appropriation (FY 06 combined appropriation of \$557,703). This would either eliminate state funding for the headstones and burial (DVA) and honor guard (Military) programs or the cost would be shifted to the General Fund or other agency sources. It should be noted that the Governor's FY 2006 - 2007 Midterm Budget Adjustment recommended shifting the Military Department's Honor Guard funding to the General Fund.

State Treasurer - The Office of the State Treasurer (OST) currently charges all cost incurred in administering the SSMF to that fund. The transfer of assets mandated by this bill will not result in any General Fund cost to the OST because any such costs will also be charged off to the SSMF.

The bill also eliminates any further state fiscal obligation from the SSMF once the fund has been transferred to the American Legion. The bill requires the American Legion to invest the principal of the trust fund in accordance with Connecticut Uniform Prudent Investor Act with the objective of providing a secure source of annual income for the program and requires the American Legion to use the investment income of the SSMF for the operation of the temporary assistance program (income may be used for reasonable administrative costs). However, to what extent the American Legion reduces the administrative costs or makes changes on any investment strategy that would otherwise impact the interest earned is unknown. Although the American Legion is required to prepare a report on the program's operation each fiscal year, the bill does not specify submittal or provide for any other reporting or oversight requirements.

ADDITIONAL BACKGROUND

Soldiers Sailors and Marines' Fund (Trust Fund) - The table below reflects the market value of the trust fund as of June 30th of each fiscal year. Also provided is the net investment income distributed by the Treasurer to the special revenue fund during the same fiscal year.

	Market Value (in	Net Investment Income
--	------------------	-----------------------

Value as of June 30 th	millions)	Distributed (in millions)
FY 96	51.93	2.91
FY 97	55.43	3.24
FY 98	58.53	2.91
FY 99	57.64	3.36
FY 00	57.52	3.29
FY 01	57.51	3.46
FY 02	56.37	3.15
FY 03	59.34	2.79
FY 04	59.07	2.72
FY 05	60.95	2.62

Soldiers Sailors and Marines' Fund (Special Revenue Fund) - The special revenue fund is used for the financing of the administrative expenses of the SSMF (agency), burial expenses and headstones administered by DVA, honor guard expenses administered by the Military Department, as well as the amount appropriated to the SSMF agency to cover the award payment to veterans' program. The interest earned and distributed from the trust fund is transferred to the special revenue fund. The net distributable income for FY 05 was \$2.6 million. The SSMF is one of the ten appropriated funds in the Appropriations Act that authorizes expenditures. The FY 05 SSMF expenditures were \$3.45 million (from an appropriated level of \$3.6 million), with interest earned and distributed to the special revenue fund of only \$2.62 million. Therefore, the FY 05 expenditures exceeded the FY 05 income by \$.83 million.

Soldiers Sailors and Marines' Fund (Appropriation) - The SSMF is one of the ten appropriated funds included in the Appropriations Act. The FY 06 SSMF appropriation is \$3.8 million to three state agencies as identified below:

<u>State Agency</u>	<u>FY 06 Appropriation</u>
Soldiers, Sailors and Marines' Fund	
Personal Services	\$773,049
Other Expenses	\$98,145
Equipment	\$8,500
Award Payment to Veterans'	\$1,890,000
Fringe Benefits	\$490,725
Agency Total	\$3,260,419
Department of Veterans' Affairs	
Burial Expenses	\$900
Headstones	\$250,000
Agency Total	\$250,900
Military Department	
Honor Guard [1]	\$306,803
Agency Total	\$306,803
TOTAL SSMF	\$3,818,122

[1] It should be noted that the Governor Recommended FY 07 Midterm Adjustments shifted the Honor Guard costs in the Military Department to the General Fund.

Soldiers Sailors and Marines' Fund (Agency) - The agency has a FY 06 appropriation of \$3.26 million (as reflected in the above table). The Personal Services and Fringe Benefits accounts support the 13 permanent full-time state employees along with their associated fringe benefits. The Administrator and Assistant Administrator of the agency are also the treasurer and assistant treasurer of the American Legion (the treasurer of the American Legion is statutorily responsible for disbursing the income from the trust fund).

The \$1.89 million appropriated to the agency for award payment to veterans includes weekly assistance, payments to meet emerging needs (including food, shelter apparel and utilities), medical costs and burial expenses. In FY 05, of the \$1.7 million award payments to veterans' expenditures, medical costs and emerging needs represented over 75% of assistance provided. The SSMF processed over 6,900 cases to 1,870 different veteran households during FY 05.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis
sHB 5467

***AN ACT IMPLEMENTING THE RECOMMENDATIONS OF THE
LEGISLATIVE PROGRAM REVIEW AND INVESTIGATIONS
COMMITTEE RELATING TO THE TRANSFER OF THE SOLDIERS,
SAILORS AND MARINES FUND TO THE CUSTODY OF THE
AMERICAN LEGION, DEPARTMENT OF CONNECTICUT, INC.***

SUMMARY:

This bill requires the Connecticut American Legion, by September 1, 2006, to submit a plan to the Program Review and Investigations Committee for taking over management and implementation of the Soldiers, Sailors, and Marines Fund from the state. If the committee approves the plan, the state treasurer must (1) disinvest all current fund investments using sound investment criteria that meet prudent standards of fiduciary responsibility, (2) transfer the fund minus any amount needed to reimburse the state for previous shortfalls between annual expenditures and interest income that the state covered, and (3) certify the actual transfer date to the General Assembly. The transfer must occur within 60 days after the committee approves the plan.

The bill eliminates the fund from the list of state trust funds that are the treasurer's responsibility, changes the fund's administration and program to conform to the transfer, and makes technical changes.

EFFECTIVE DATE: The requirements concerning the plan, its approval, and fund transfer are effective on passage. All other provisions take effect on the date the treasurer transfers the fund.

TRANSFER PLAN SUBMISSION AND APPROVAL TIMETABLE

The bill requires the legion to submit its transfer plan to the Program Review Committee by September 1, 2006. The committee has until October 15, 2006 to approve, modify, or reject it. If the committee

rejects it, the legion must submit an amended plan within 20 days after the rejection. The committee must act on the amended plan within 20 days of receiving it.

FUND INVESTMENT

Under current law, the treasurer invests and administers the fund. The fund provides a veterans' temporary assistance program, which is run by a state agency also known as the Soldiers, Sailors and Marines Fund, in partnership with the Connecticut American Legion. The agency uses fund interest to provide food, clothing, medical or surgical aid or care, relief, or funeral expenses for (1) honorably discharged wartime veterans of the U.S. or allied armed forces or the Connecticut National Guard and (2) their spouses and dependent children under age 18.

Once the fund transfer occurs, the bill requires the legion to provide the temporary assistance and to invest the fund principal according to the state prudent investor law with the objective of providing a secure income source for the assistance program.

As of the transfer date, the bill eliminates current procedures for investing and disbursing money in the fund. It eliminates a requirement that, if not enough money is available in any year to carry out the assistance program, the Finance Advisory Committee make additional appropriations from the General Fund up to a maximum amount unless the governor declares an emergency.

PROGRAM ADMINISTRATION

The bill allows the legion to use part of the fund income to defray the reasonable cost of administering the assistance program but bars it from using any of the fund principal or income to maintain the legion itself. Under current law, the legion is barred from using any of the fund interest it receives to maintain itself.

Current law (1) requires the legion to provide the assistance under the authority of its bylaws, which must include eligibility procedures; (2) limits payments for hospital care and treatment; and (3) requires

the legion to account to the state treasurer for fund disbursements on a quarterly basis. The bill instead requires the legion to have written procedures and criteria for the program and to prepare an annual report, by March 1, on the program's operations in the preceding calendar year. The report must include a summary of the fund's investments and earnings as well as data on the number, amount, and types of awards made under the program during the year.

PROVISIONS REPEALED

The bill eliminates provisions:

1. requiring the state treasurer to make copies of the fund's regulations and applications for assistance available at each town clerk's office (§ 27-138a);
2. giving applicants who are denied aid the right to an administrative hearing, the right to appeal the hearing results to state officials and then to court, and establishing procedures for hearings and appeals (§§27-138b & 138c);
3. allowing the state to charge expenses incurred for supervision, care, and control of legion premises used to administer the assistance program to the fund's interest (§ 27-138d); and
4. requiring that, to be eligible for assistance, wartime veterans have been Connecticut citizens or resident aliens when they entered the U.S. or allied armed forces or the Connecticut National Guard.

BACKGROUND

Connecticut Uniform Prudent Investor Act

This act sets standards for how trustees must invest and manage trust assets when the trust provisions are not explicit. Among other things, it requires trustees to (1) invest and manage assets as "prudent investors" would and to use any special skills or expertise they have, (2) diversify trust investments, and (3) consider various circumstances when managing trust assets. Among these circumstances are general

economic conditions; tax consequences; inflation and deflation; need for liquidity, regular income, or capital appreciation or preservation; portfolio size; expected total return; and the trust's purpose. The act allows trustees to invest in any type of property or kind of investment (CGS §§ 45a-541 to 45a-541l).

COMMITTEE ACTION

Program Review and Investigations Committee

Joint Favorable Substitute

Yea 11 Nay 0 (03/09/2006)